Georgia’s economic exposure to Russia: recent developments

by Sebastian Staske and Dr Ricardo Giucci
Executive summary

» **Starting point**: some observers argue GEO’s economic exposure to RUS increased strongly recently
» Goal of this Policy Study: check whether this claim is correct by looking at relevant indicators
» Definition exposure: structural dependency where short-term substitution is difficult. Thus, an increasing indicator does not necessarily mean higher exposure

» **Goods exports**
  ✓ Exports to other countries (36%) increased much stronger than to RUS (7%)
  ✓ Overall, decline in exposure to RUS. But: exposure increased in agro-food sector

» **Goods imports**
  ✓ Very strong increase in imports from RUS due to oil products
  ✓ Share of RUS in oil imports increased from 18% (2021) to 49% (2022). But: this was driven by low prices for RUS Urals oil; (re-)diversification possible, thus no increase in exposure

» **Tourism**
  ✓ 2022: no conclusive statement on change in exposure possible due to relocation of RUS people
  ✓ 2023: resumption of direct flights will likely increase exposure

» **Other factors**
  ✓ **Remittances**: no increase in exposure; hike in money transfers from RUS due to special factors
  ✓ **FDI**: RUS role hard to determine, but no evidence for increased exposure (case study: Borjomi)
  ✓ **Banking sector**: limited exposure before the war; no exposure as of today, no active RUS bank
  ✓ **Public debt**: bilateral debt to RUS very low (0.2% of total public debt), no exposure to RUS
  ✓ **Market sentiment**: rating actions ambiguous, Eurobond risk premium: no increased exposure

✓ Overall, no increase in exposure to RUS. Sectoral view reveals mixed results
Outline

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   2. Goods exports to Russia in 2022
   3. Exposure to Russia as an export market
3. Goods imports
   1. Overview of goods imports from Russia
   2. Exposure to Russia as an import market
4. Tourism
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5. Other factors
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   2. FDI
   3. Banking sector
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6. Market perception: ratings and Eurobond

Annex
- Exposure to Russia for food imports
- Exports of ICT services
1. Motivation
1. Motivation

Russia is among Georgia’s most important trading partners and is a key source country for money transfers and FDI.

The war in Ukraine has caused significant shifts in global economic relations with Russia. As a direct neighbour of Russia, Georgia is particularly exposed to such shifts.

Some observers argue that Georgia’s economic exposure to Russia has increased strongly in recent years, especially since the start of the war in Ukraine.

Goal of this Policy Study: check whether this claim is correct.

Indicators: we look at the development of goods exports and imports, tourism, money transfers, FDI, the banking sector, public debt and market perception.

Key point: we do not just refer to aggregated data, but also analyse these data more in detail, taking into account special factors.

Definition: we define exposure as a structural dependence on Russia which cannot be alleviated in the short-term.

In particular: a rising share of Russia in any of these indicators does not mean that Georgia’s exposure to Russia has increased if effects are temporary or could be reversed relatively easily.
2. Goods exports
2.1. Overview of goods exports to Russia

Overview 2017-2023

» In general: increase in exports

» But: increase mostly in line with trend in overall exports, share in total exports relatively constant at around 13-14%

» 2022: share in total declined to 12% due to stronger export growth to other countries

» 4M2023: share in total stable

Structure of exports

Domestic exports

» Strong dominance of agro-foods:
  » High share of goods with brand recognition (wine, waters and spirits, combined: 47% of total exports to RUS)
  » Additionally: fruits, vegetables

» Also notable: ferro-silico-manganese

Re-exports

» 2022: dominated by motor cars (due to strong increase from low base)

➢ Strong, but not dominant, role for RUS in total exports
2.2. Goods exports to Russia in 2022

Overview of domestic exports and re-exports to Russia

<table>
<thead>
<tr>
<th></th>
<th>USD m 2021</th>
<th>USD m 2022</th>
<th>% yoy</th>
<th>Total</th>
<th>Price</th>
<th>Vol.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic exports to RUS</td>
<td>555</td>
<td>536</td>
<td>-3</td>
<td>22</td>
<td>-18</td>
<td>49</td>
</tr>
<tr>
<td>Wine</td>
<td>130</td>
<td>159</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ferro-silico-manganese</td>
<td>172</td>
<td>108</td>
<td>-37</td>
<td>15</td>
<td>-45</td>
<td></td>
</tr>
<tr>
<td>Spirits</td>
<td>41</td>
<td>56</td>
<td></td>
<td>37</td>
<td>20</td>
<td>14</td>
</tr>
<tr>
<td>Mineral water, unsweetened</td>
<td>60</td>
<td>50</td>
<td>-17</td>
<td>-2</td>
<td>-14</td>
<td></td>
</tr>
<tr>
<td>Mineral water, sweetened</td>
<td>26</td>
<td>39</td>
<td>51</td>
<td>0</td>
<td>50</td>
<td></td>
</tr>
<tr>
<td>Peaches, incl. nectarines</td>
<td>24</td>
<td>29</td>
<td>20</td>
<td>2</td>
<td>18</td>
<td></td>
</tr>
<tr>
<td>Cranberries, blueberries</td>
<td>5</td>
<td>8</td>
<td>51</td>
<td>2</td>
<td>47</td>
<td></td>
</tr>
<tr>
<td>Apples</td>
<td>8</td>
<td>7</td>
<td>-10</td>
<td>24</td>
<td>-27</td>
<td></td>
</tr>
<tr>
<td>Mandarins, incl. tangerines</td>
<td>16</td>
<td>7</td>
<td>-59</td>
<td>7</td>
<td>-62</td>
<td></td>
</tr>
<tr>
<td>Manganese oxides</td>
<td>2</td>
<td>5</td>
<td>97</td>
<td>7</td>
<td>62</td>
<td></td>
</tr>
<tr>
<td>Other domestic exports*</td>
<td>70</td>
<td>68</td>
<td>-3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Re-exports to RUS</td>
<td>55</td>
<td>116</td>
<td>110</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Motor cars</td>
<td>17</td>
<td>76</td>
<td>338</td>
<td>102</td>
<td>117</td>
<td></td>
</tr>
<tr>
<td>Other re-exports*</td>
<td>38</td>
<td>40</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total exports
» Small increase (7% yoy)
» But: increase far below other regions (36%) and mainly driven by re-exports

Domestic exports
» Overall: stagnant, small decline (-3%)
» Decline mostly explained by decrease in ferro-silico-manganese exports
» Notable: strong increases for wine and spirits, in particular regarding volumes
» Possible explanation: (temporarily) reduced EU sales of these goods to RUS got substituted by GEO exports

Re-exports
» Very strong increase in re-exports of motor cars, but from low base
» Likely mainly used cars, possible explanation: reduced exports of Western suppliers increases demand for used cars in RUS

Increase in exports to RUS in 2022 was below other countries
» Main driver: re-exports of motor cars

Sources: Geostat, own calculations; Note: copper ores (an important export good for worldwide trade, but not with regards to Russia) included in re-exports
## 2.3. Exposure to Russia as an export market

### Share of exports to Russia for selected goods

<table>
<thead>
<tr>
<th></th>
<th>2022 (USD m)</th>
<th>RUS share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RUS</td>
<td>World</td>
</tr>
<tr>
<td>Domestic exports to RUS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wine</td>
<td>159</td>
<td>248</td>
</tr>
<tr>
<td>Ferro-silico-manganese</td>
<td>108</td>
<td>453</td>
</tr>
<tr>
<td>Spirits</td>
<td>56</td>
<td>100</td>
</tr>
<tr>
<td>Mineral water, unsweetened</td>
<td>50</td>
<td>110</td>
</tr>
<tr>
<td>Mineral water, sweetened</td>
<td>39</td>
<td>81</td>
</tr>
<tr>
<td>Peaches, incl. nectarines</td>
<td>29</td>
<td>30</td>
</tr>
<tr>
<td>Cranberries, blueberries</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Apples</td>
<td>7</td>
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</tr>
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<td>Mandarins, incl. tangerines</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>Manganese oxides</td>
<td>5</td>
<td>15</td>
</tr>
<tr>
<td>Other domestic exports*</td>
<td>68</td>
<td>1,618</td>
</tr>
<tr>
<td>Re-exports to RUS</td>
<td>116</td>
<td>2,913</td>
</tr>
<tr>
<td>Motor cars</td>
<td>76</td>
<td>904</td>
</tr>
<tr>
<td>Other re-exports*</td>
<td>40</td>
<td>2,009</td>
</tr>
<tr>
<td>Total exports to RUS</td>
<td>652</td>
<td>5,593</td>
</tr>
</tbody>
</table>

**Sources:** Geostat, own calculations; **Note:** copper ores (an important export good for worldwide trade, but not with regards to Russia) included in re-exports

### Aggregate view

- **2022:** decline of RUS share in total exports
- **Reason:** increase in exports to rest of world much stronger (see previous slide)

### Sectoral view

**Wine, spirits, water**

- High and increasing exposure: 50-65% of exports go to RUS
- But: well-established business relations and regional brand recognition, short-term diversification difficult

**Other agro-food products**

- Limited in value, but very high exposure (over 90% for some goods) continues

**Other goods**

- Ferro-silico manganese: international commodity, no significant exposure to RUS
- Re-exports do not constitute exposure

- Overall, decline in exposure to Russia
- But: exposure persists and increases in agro-food sector
3. Goods imports
3.1. Overview of goods imports from Russia

Overview 2017-2023

» Until 2021: slow yearly increase, share in total imports roughly constant at ca. 10%

» 2022: very strong increase in imports (79% yoy, other regions: 30%), share in total increases to 14%

» 4M2023: share in total roughly stable

Import structure and changes in 2022

» In general: two main categories (mineral products and agro-foods)

» 2022: change in structure, now dominance of mineral products

» Reason: strong increase in imports of oil products

➢ Very strong increase in imports in 2022

➢ Reason: strong increase in imports of oil products
3.2. Exposure to Russia as an import market

Overview of selected imports from Russia

<table>
<thead>
<tr>
<th></th>
<th>USD m</th>
<th>% yoy</th>
<th>RUS: % total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2021</td>
<td>2022</td>
<td>Total</td>
</tr>
<tr>
<td>Oil products</td>
<td>135</td>
<td>623</td>
<td>361</td>
</tr>
<tr>
<td>Natural gas</td>
<td>71</td>
<td>93</td>
<td>32</td>
</tr>
<tr>
<td>Coke</td>
<td>23</td>
<td>59</td>
<td>153</td>
</tr>
<tr>
<td>Coal</td>
<td>6</td>
<td>16</td>
<td>154</td>
</tr>
<tr>
<td>Wheat/flour</td>
<td>99</td>
<td>128</td>
<td>30</td>
</tr>
<tr>
<td>Other imports</td>
<td>642</td>
<td>808</td>
<td>26</td>
</tr>
<tr>
<td><strong>Total imports</strong></td>
<td><strong>1,023</strong></td>
<td><strong>1,835</strong></td>
<td><strong>79</strong></td>
</tr>
</tbody>
</table>

Sources: Geostat, own calculations; Note: RUS share (% of total) based on import volumes

Development in 2022

» Increase in import value predominantly driven by very strong rise in imports of oil products (+ USD 488 m)

» Noteworthy: oil import volumes rise strongly

» Reason: Russian Urals oil trades at discount relative to other brands

Exposure to RUS

» **Oil imports**: until 2021 well diversified, RUS share around 18%

» 2022: quick reaction to change in prices

» But: no rise in exposure as (re-)diversification likely possible if price difference fades

» **Natural gas**: long-term contract with AZE, exposure to RUS did not change in 2022

» **Coal**: high and increasing RUS import share, but: overall importance of coal decreasing

» **Wheat**: traditionally high share for RUS, thus little change in 2022 (see annex for details)

➢ RUS share in oil products rising strongly, but no change in exposure

Source: Geostat
4. Tourism
4.1. Overview of visitors and revenues in 2022

Overview

» Important sector: 12% of GDP (pre-COVID)
» General trend: increasing number of tourists and revenues from RUS (20-25% of total)
» 2022: high importance of migration
  - Number of tourists still below 2019 level
  - Revenues already exceeding 2019 level
  - Reason: statistical problems in differentiating vacation tourists and migrants

Exposure to RUS

» 2022: statistics influenced by relocation of approx. 90,000 people from RUS
» IMF methodology: tourists staying longer than one year count as residents
» Starting Mar-23: NBG estimates share of RUS migrants staying longer than one year
» All else being equal: “tourism revenues” would decrease as statistical effect fades out

➢ 2022: no conclusive statement on change in exposure possible due to relocation effect
4.2. Direct flights with Russia

Exposure to RUS

- Jul-19: RUS bans direct flights from/to GEO
- Likely: growth in air travel in 2019 subdued as result of the ban
- Note: growth in number of RUS tourists slowed down in 2019 (previous slide)
- May-23: ban was lifted, new direct flights
- Four routes currently active or planned by one GEO airline and two RUS airlines
- RUS airlines not directly under sanctions, but risks related to maintenance

Importance of air travel

- No differentiated data for air travel by country publicly available
- But: overall trend indicates increase in importance of air travel
- Also: on average, air tourists spend more than other tourists
- Exposure in tourism likely to increase in 2023 due to direct flights

Direct flights between Georgia and Russia

<table>
<thead>
<tr>
<th>Carrier</th>
<th>City in GEO</th>
<th>City in RUS</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Georgian Airways</td>
<td>Tbilisi</td>
<td>Moscow</td>
<td>active</td>
</tr>
<tr>
<td>Azimuth Airlines</td>
<td>Tbilisi</td>
<td>Moscow</td>
<td>active</td>
</tr>
<tr>
<td>Red Wings</td>
<td>Tbilisi</td>
<td>Sochi</td>
<td>planned (June)</td>
</tr>
<tr>
<td>Red Wings</td>
<td>Kutaisi</td>
<td>Moscow</td>
<td>planned (June)</td>
</tr>
</tbody>
</table>

Source: respective airlines, as of 8 June 2023

Total air tourists 2017-2023

Source: GNTA; Note: value for % of total in 2021 (51%) omitted to allow for better visibility of other years
5. Other factors
5.1. Remittances and money transfers

Overview

» Usually: money transfers good indicator for remittances (i.e. money sent home to support relatives in GEO)

» Long-term trend: Russian share declining
  - 2017: 33%
  - 2021: 18%

» Reason: Russia becoming less important as destination for workers

Exposure to RUS

» 2022: very strong increase in money transfers (USD 2.1 bn, 47% of total)

» However, increase not due to remittances, but to special factors:
  - Two waves of relocation of Russians to Georgia, see chart with monthly data
  - Capital flight
  - Arbitrage opportunities

➢ Thus: no increase in exposure for remittances
5.2. FDI

Overview

» Small share of RUS, 2022: decline to 3.5%
» 2022: strong increase in real estate, but: decline in financial services
» But: statistics based on country of registration. Firms often register in countries with favorable tax/arbitration laws
» Result: RUS share in FDI underestimated

Exposure to RUS / Case study: Borjomi

» Before war: Borjomi controlled by Russian entity (despite other country registrations)
» Apr-22: suspension of production, strong decline in exports of mineral waters
» Reason: problems related to sanctions due to majority ownership by Russian Alfa Group
» Solution in Jun-22: GEO gov’t takes over part of share of RUS investor (7.73%) for free, RUS investor no longer in control (49.99%)

➢ Role of Russia in FDI difficult to establish, but no indications for increase in overall exposure
➢ Borjomi as case study for reduced exposure

Flows of FDI from Russia 2017-2022

Exports of mineral waters 2021-2022

Source: Geostat; Note: figures below years indicate % of total FDI flows

Source: Geostat
5.3. Banking sector

Overview
» In total: 14 banks operating in GEO
» Dominance of two large banks: TBC Bank and Bank of Georgia (combined market share: 74%)

Exposure to RUS
» Even before the war in Ukraine very limited role of Russian banks
  - Only one bank (VTB Bank), 59% of shares owned by Russian state
  - Small market share: 4%
» Immediately after start of war: NBG instructed financial sector to comply with Western sanctions
» Result: transfer of VTB portfolio
  » BasisBank: retail loans and deposits
  » Liberty Bank: SME loans and deposits

➢ Very limited role even before the war
➢ Swift reaction following the war
➢ Decrease in exposure, now: no exposure

Banking sector assets before the war in Ukraine (2021 Q3)

Source: KPMG
5.4. Public debt

**Outstanding debt to RUS**

- Debt to Russia part of “legacy debt” (loans from former USSR republics)
- Remaining debt very small: USD 19 m
- Share in total gov’t debt negligible (0.2%)
- Full repayment by 2025 planned

**Exposure to RUS**

- Practically no exposure to RUS before the war
- No noteworthy change in exposure
6. Market perception: ratings and Eurobond
6. Market perception: ratings and Eurobond

**Overview**

- Eurobond as indicator for market sentiment
  - Value: USD 500 m, maturity: Apr-26
  - At issue (Apr-21): yield approx. 200 bps higher than US Treasury Note with same maturity (risk premium)
  - Development of risk premium indicates market perception of GEO as a lender

**Exposure to RUS**

- 2022: rating actions ambiguous
  - Moody’s: outlook downgraded as war in UKR highlights risks in links to RUS (also in economic context)
  - S&P: outlook upgraded at start of year due to strong growth in 2021; exposure to RUS balanced by other factors

- Development of Eurobond risk premium
  - Initially: spike after start of war
  - Afterwards: normalisation

- Ambiguous rating actions in 2022
- But: reaction of Eurobond spread does not indicate major change in market sentiment

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**Rating actions in 2022**

<table>
<thead>
<tr>
<th>Agency</th>
<th>2021</th>
<th>2022</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fitch</td>
<td>BB Stable</td>
<td>BB Stable</td>
<td>unchanged</td>
</tr>
<tr>
<td>Standard &amp; Poor’s</td>
<td>BB Negative</td>
<td>BB Stable</td>
<td>Outlook up</td>
</tr>
<tr>
<td>Moody’s</td>
<td>Ba2 Stable</td>
<td>Ba2 Negative</td>
<td>Outlook down</td>
</tr>
</tbody>
</table>

**Source:** respective rating agencies

**Eurobond risk premium to US Treasury Note**

Source: Börse Frankfurt, own calculations
About the German Economic Team

Financed by the Federal Ministry for Economic Affairs and Climate Action, the German Economic Team (GET) advises the governments of Ukraine, Belarus*, Moldova, Kosovo, Armenia, Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.

*Advisory activities in Belarus are currently suspended.

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Our publications are available under
Annex: Exposure to Russia for food imports

### Overview
- In general: high importance for GEO of agro-food imports from RUS
- For some goods, nearly all imports come from RUS
- In particular: wheat (and flour) and sunflower-seed oils
- 2022: limited change in share of RUS

### Self-sufficiency and imports
- **Wheat**: limited domestic production
  - Result: high reliance on imports, almost all of which come from RUS
- **Maize**: domestic production relatively high, but imports almost fully from RUS
- **Pork**: imports more diversified, but RUS still with sizeable share

- High importance of agro-foods imports from RUS, esp. wheat
- But: no change in exposure in 2022

#### Share of imports from Russia for selected food products

<table>
<thead>
<tr>
<th></th>
<th>2022 (USD m)</th>
<th>RUS share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RUS</td>
<td>World</td>
</tr>
<tr>
<td>Wheat flour</td>
<td>67</td>
<td>68</td>
</tr>
<tr>
<td>Wheat</td>
<td>61</td>
<td>63</td>
</tr>
<tr>
<td>Sunflower-seed oil</td>
<td>40</td>
<td>45</td>
</tr>
<tr>
<td>Live swine</td>
<td>20</td>
<td>21</td>
</tr>
<tr>
<td>Worked maize grains</td>
<td>16</td>
<td>16</td>
</tr>
<tr>
<td>Maize</td>
<td>8</td>
<td>8</td>
</tr>
</tbody>
</table>

**Sources:** Geostat, own calculations

#### Self-sufficiency ratios and import share from Russia

<table>
<thead>
<tr>
<th></th>
<th>Self-sufficiency ratio</th>
<th>Import share from RUS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat (and products)</td>
<td>22</td>
<td>94</td>
</tr>
<tr>
<td>Maize (and products)</td>
<td>74</td>
<td>96</td>
</tr>
<tr>
<td>Pork</td>
<td>52</td>
<td>35</td>
</tr>
</tbody>
</table>

**Source:** Geostat, own calculations; *values for self-sufficiency ratio from 2021; self-sufficiency ratio = domestic production ÷ (domestic production + exports – imports); deviations to values in table above can be explained by inclusion of processed foods
Annex: Exports of ICT services

Overview
- ICT sector in GEO relatively small
- Until 2019: exports small (USD 114 m), minor contribution to total services exports (2-3%)
- 2022: relocation of people from RUS
  - GET survey: many migrants have background in IT
  - Result: very strong increase in exports (USD 597 m), share in total rises to 10.6% (despite increase in tourism)

Exposure to RUS
- High increase in ICT services exports likely explained by relocation
- But: increase does not constitute exposure to RUS per se
- Should RUS migrants return at some point: decrease in exports likely (current increase then “one-off” event)

➢ No significant exposure in exports of ICT services

In which sector is your primary job?
(\% of employed respondents)

Exports of ICT services

Source: German Economic Team, CRRC-Georgia; N=267; RA/DK = refuse to answer / don’t know

Exports of ICT services

Source: NBG; *Note: increase in \% of total in 2020/2021 mainly due to decline in tourism